MR. SCOTT: Thank you very much, Dr. Papadimitriou. Dr. Weidenbaum, other members of the Commission, thanks for having me here this afternoon. I am going to look at the microeconomic consequences of the growth in the trade deficit, particularly for workers in the U.S. and also in other countries, in my brief remarks here this afternoon.

The growth in the trade deficit in the U.S. since the 1970s has eliminated millions of jobs. Most of them have been concentrated in high tech high wage manufacturing industries. In addition, the growth in trade with low wage countries is also responsible for a large share of the U.S. trade deficit, and this has had a tremendous depressing effect on wages in manufacturing and in other sectors of the economy through a number of channels that I would like to discuss with you this afternoon.

Surprisingly, in addition, the U.S. trade deficits have not been good for workers in developing countries either. Recent research summarized in my written remarks has revealed that globalization is associated with rising levels in income inequality in many countries, and, in addition, the recent financial crises in Asia, Brazil, Russia, and elsewhere have shown that increased openness may increase the risks and the costs of macroeconomic instability as well.

I will briefly review this evidence because it is important to establish that this process of globalization confronts workers in both rich and poor countries with similar problems. Hence, I think the solutions to these problems are also going to have to be global in nature.

First, to the question of trade deficits and employment. EPI has prepared a number of detailed studies in the past several years, which show that the growth in the trade deficit over the past two decades has destroyed millions of jobs.

Now, these are summarized in my Figure 1, which I have passed out. And it is also in my prepared statement. **[See Figure 5]**

Between 1979 and 1994, we showed in the paper I wrote with two other co-authors in ’97 that the trade deficit -- the growth in the trade deficit in that period eliminated 2.4 million jobs in the U.S., almost all of them in manufacturing. That is the first bar in the graph.

The second bar shows the impact of NAFTA, which was implemented in 1994. The U.S. trade surplus -- that’s a typo in my written statement -- the surplus with Mexico was turned into a deficit. We showed that between ’94 and ’96 alone this deficit cost the U.S. an additional 395,000 jobs.

Finally, the Asian crisis hit beginning two years ago, and we forecast that that crisis could cost us up to two million jobs, as shown in the third bar. These job losses have begun to materialize. Just in the last 15 months, the U.S. has lost nearly 500,000 manufacturing jobs alone. And so we are already experiencing those impacts.

In some trade is eliminated, more than three million U.S. jobs in goods producing industries in the past two decades. Many more will be lost in the future unless this long-term growth in the trade deficit is halted.

And I’d like to turn next to trade and wages. I’ll begin with my Figure 2, which shows that the -- the steady upward growth in U.S. wages reached a peak in the 1970s, and real wages have actually been falling since then. You’ll note in the bottom half of that diagram that, on the other hand, the trade deficit -- we used to have a trade surplus, and in the 1970s it became a deficit and that deficit has also been growing.

[See Insert 6]

In the long term -- this is not a short-term problem; it has gone on for at least two or three decades -- what have been the consequences? Are these deficits responsible for this decline in wages in Figure 2? Economic research shows that trade is certainly one of the most significant causes because it hurts workers in at least six ways that are summarized in the paper.

I'll briefly discuss a few of these. First, the steady growth in the trade deficit over the last two years has destroyed millions of highways manufacturing jobs. Most of these workers do usually find jobs elsewhere but in lower paying industries, such as restaurants and health services where wages are much lower.

Second, imports of intermediate manufactured goods displace workers in manufacturing as well. We also see an outsourcing of those intermediate components to countries like Mexico and China that is accelerated in the 1990s, displacing more highways jobs.

Third, low wages and greater world capacity for producing manufactured goods lowers the prices of many of those goods. And there has been a great deal of research in the last four or five years that has shown that falling prices of imports puts downward pressure on the wages of U.S. workers, particularly those workers producing the competing goods.

Fourth, the mere threat of closing a plant can lead to -- lead workers to make wage concessions. This represents a reduction in the bargaining power of workers, and we see that reflected in the declining value of new contract agreements over time.

Fifth, we have seen large increases in direct investment that have meant reduced investment in domestic manufacturing capacity.

Finally, I just should say that there have been indirect effects on service sector workers as well as competition has reduced wages throughout the production worker segments of the labor force.

I'll skip the section on the impacts in low wage countries I summarized earlier and go right to my conclusions, since my time is almost up.

In my view, trade is not a zero sum gain for working families. And, in fact, it has been a negative sum gain in both the U.S. and in many developing countries. These results suggest that trade liberalization per se is not particularly the problem. It is the particular path of liberalization we have followed, as I explain in my statement.

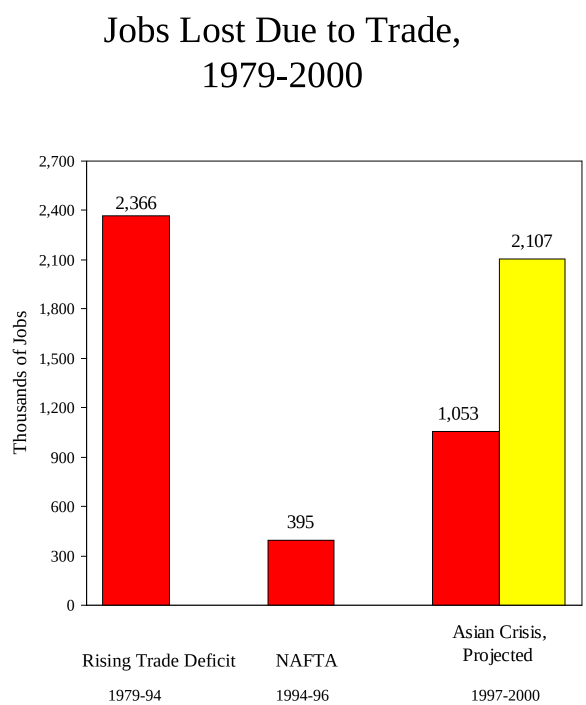
I think the solution to this is not to close off trade. Rather, it is to create new types of regulations that are going to raise incomes for workers in both the north and the south. I think we have, for example, to improve the enforcement of labor rights in developing countries to encourage wages to go up.

I think we also have to reverse the accumulation of massive excess capacity in industries like steel and autos and computer chips that leads to destructive competition.

So, with that, I'll close and look forward to your questions. Thank you.

[Insert 5]

Figure 1

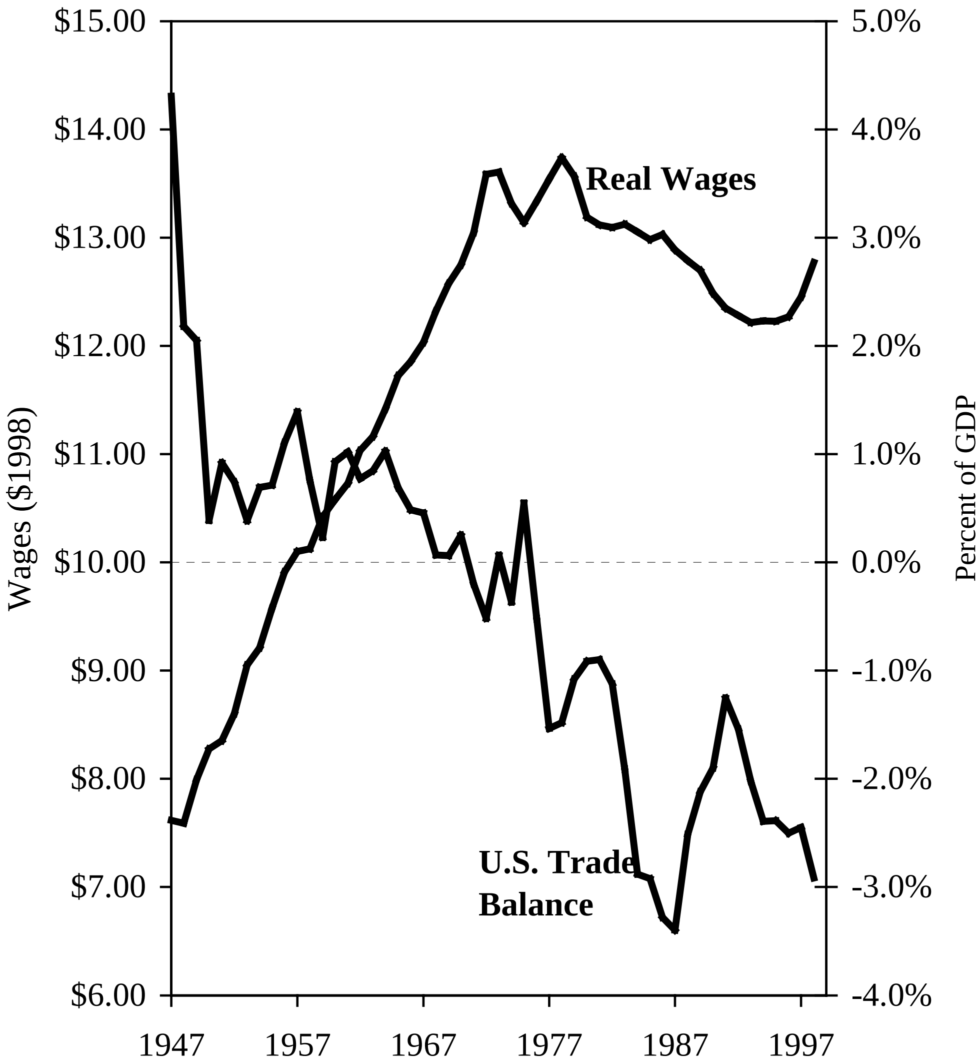


Source: Economic Policy Institute

[Insert 6]

Figure 2

Real Wages and the U.S. Trade Deficit, 1947 to 1998



VICE CHAIRMAN PAPADIMITRIOU: Thank you very much, Mr. Scott.

Mr. Weintraub?